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BOJ Cuts Discount Rate

Give the Bank of Japan credit for achieving the next to impossible: the surprise announcement of a widely anticipated action. For months analysts had speculated -- despite repeated BOJ denials -- that the central bank would lower its discount rate within days or weeks. (The rate signals BOJ's intentions on the direction of monetary policy and directly influences an array of other interest rates.) By June, however, influential business leaders, such as Industrial Bank of Japan, Ltd. president Yoh Kurosawa, were stating publicly that they doubted that BOJ would change the key rate soon. Speculators shifted the likely date to late summer at the earliest.

The lull in expectations newly projected by the media and business leaders appears in retrospect to have set the stage for BOJ to surprise speculators with its July 1 announcement that it was lowering the discount rate from 6 percent to 5.5 percent, effective immediately. The change, the first since August 30, 1990, was the first reduction in the rate since February 1987. Within days a broad range of other interest rates for borrowers and depositors began dropping.

The latest adjustment brought Japan's discount rate into equality with its U.S. counterpart, but it still was above the 5.25 percent charged prior to

the firm, which reportedly received Y35 million ($259,300 at Y135=$1.00) for the repair work and sold Y700 million ($5.2 million) worth of new parts to Iran. JAE is said to have falsified documents to obtain import and reexport permits from the Ministry of International Trade and Industry. In response, Prime Minister Toshiki Kaifu said July 5 that he would "ensure strict treatment [of the company] after elucidating the details of the case in accordance with laws." Japanese defense analysts, however, say that a ban on government procurement from JAE is unlikely because the company's products are essential components of the Air Self-Defense Force's equipment. Although analysts predict that the government will issue a steep fine and a warning to the company, MITI officials have indicated that JAE could be prohibited from exporting for up to three years if the allegations against it prove true.

The JAE scandal is particularly embarrassing to Japan because of Tokyo's stated readiness to assume a larger part in international politics through advocacy of arms control. Following the Persian Gulf War Japan focused on ways to take the lead on controlling global arms proliferation. New guidelines for foreign aid announced in April, for example, called for the government to consider whether a recipient country is developing and manufacturing weapons of mass destruction (see JEI Report No. 16B, April 26, 1991). Mr. Kaifu is expected to highlight this potential leadership role for Japan at the mid-July London gathering of the leaders of the world's seven major industrial democracies. He reportedly will unveil a new system for full disclosure of worldwide arms sales aimed at cutting down the flow of arms to terrorist or belligerent states. (Since most of the other summit participants are major arms exporters, the prospects for the Japanese proposal appear somewhat shaky.) In a July 5 meeting with the press Mr. Kaifu reportedly divorced the proposal from the JAE incident, but it remains to be seen whether international observers will do the same.

Margo Grimm

Sales To Japan Up But Criticism Continues

The structure of U.S.-Japan trade is just as important as the size of the bilateral trade gap. That line of thinking or some variation of it has become a staple of congressional testimony by Bush administration trade policymakers as well as by critics of the White House's Japan negotiating strategy (see JEI Report No. 22A, June 14, 1991). What now passes for the conventional wisdom on bilateral trade, however, is just the latest version of an argument that has been around for at least as long as the United States has bought more from Japan than it has sold to that country.

American trade policymakers and business executives complained repeatedly during the 1970s and the first half of the 1980s that Japanese trade policies and practices skewed U.S. exports toward industrial and agricultural inputs at the expense of manufactured products in which American suppliers had a competitive advantage. When sales of manufactures took off in the last part of the decade, the criticism took on a new cast. Japan's imports of manufactures, whether from the United States or elsewhere, were said to be substantially less than would be expected for a country of its economic standing (see JEI Report No. 19A, May 11, 1990). Over the last year or so the criticism has undergone another transformation. Now it is argued that high technology products make up too small a share of this country's Japan-bound exports.

The composition of U.S. exports to Japan changed significantly between 1985 and 1990 (see Table 1) as sales of manufactured products generally grew at a much faster rate than shipments of bulk commodities. Critics acknowledge as much, but they point out that manufactures still made up a smaller proportion of exports to Japan last year (about 62 percent) than to the European Community (80 percent-plus) (see Table 2). What they forget is that a disparity is arithmetically inevitable because the European Community has domestic sources of supply for most of the big-ticket industrial and agricultural inputs that Japan imports from the United States.

Table 1: Composition of U.S. Exports to Japan, 1985-90

	1985	1986	1987	1988	1989	1990	Value Change 1985-90
Food and Feed	22.4%	18.9%	19.8%	21.2%	19.1%	17.5%	68.3%
Industrial Supplies	39.0	44.7	36.7	34.9	35.0	31.4	72.8
Capital Goods	26.6	24.9	27.4	28.4	27.3	29.7	140.5
Automotive Products	1.1	1.1	1.4	2.2	2.5	3.6	639.5
Consumer Goods	6.6	6.8	9.9	9.8	12.5	14.2	363.8
Total Exports (million dollars)	$22,608	$26,797	$28,284	$37,732	$44,479	$48,580	114.9

Table 2: Composition of U.S. Exports to the European Community, 1985-90

	1985	1986	1987	1988	1989	1990	Value Change 1985-90
Food and Feed	9.8%	10.2%	9.1%	7.8%	6.0%	5.3%	8.9%
Industrial Supplies	30.1	28.3	27.1	26.1	25.8	25.9	72.6
Capital Goods	45.7	46.1	47.1	48.8	49.1	47.9	109.9
Automotive Products	1.8	1.9	2.3	2.7	2.9	3.2	258.9
Consumer Goods	7.5	8.7	9.0	9.6	10.8	11.9	220.2
Total Exports (million dollars)	$48,945	$52,862	$60,702	$75,829	$86,421	$98,118	100.5

Source: Department of Commerce, Bureau of Economic Analysis

Complaints about the differential growth of exports of low technology goods and sales of technology-intensive products to Japan over the 1985-90 period are harder to dismiss. While such products as computer equipment, semiconductors, telecommunications equipment, scientific and medical equipment, and aircraft were among the export pacesetters (see Table 3), the bilateral trade deficit in most of these products expanded (see Table 4) even while the gap between overall exports and imports was narrowing.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

Table 3: U.S. Exports to Japan by End-Use Category, 1986-90

(in millions of dollars, f.a.s. value)

	1986	1987	1988	1989	1990
Total Exports to Japan	$26,797	$28,284	$37,732	$44,479	$48,580
Food, Feed and Beverages	5,078	5,614	8,005	8,481	8,505
Wheat	425	350	426	477	421
Corn	868	1,024	1,611	1,595	1,673
Sorghum, Barley and Oats	182	181	233	351	316
Other Animal Feeds	231	228	326	327	286
Soybeans	837	782	1,033	866	818
Other Oilseeds	44	39	58	56	65
Meat and Meat Products	765	910	1,379	1,634	1,578
Dairy Products and Eggs	47	45	56	36	45
Fish and Fish Products	867	1,070	1,562	1,622	1,802
Fruits and Fruit Products	372	449	535	580	543
Vegetables and Vegetable Products	155	190	267	277	290
Nuts and Nut Products	125	105	122	125	116
Bakery and Confectionery Products	31	46	86	87	79
Wine	13	25	41	57	81
Other Alcoholic Beverages	23	49	105	110	130
Industrial Supplies and Materials	11,982	10,386	13,157	15,546	15,232
Raw Cotton	251	423	482	547	579
Unmanufactured Tobacco	230	302	213	297	305
Hides and Skins (incl. furskins)	336	380	467	408	457
Metallurgical-Grade Coal	534	443	525	503	510
Other Coal	35	43	77	452	463
Fuel Oil	391	409	349	236	164
Other Petroleum Products	211	337	404	515	594
Natural Gas	187	149	154	158	162
Nuclear Fuel Materials and Fuels	600	526	476	790	562
Logs, Lumber, Plywood and Veneers	1,110	1,584	1,928	2,392	2,312
Manufactured Wood Supplies	15	29	46	81	109
Paper Base Stocks	576	760	1,057	993	778
Newsprint and Other Paper Products	346	389	459	513	489
Cotton and Other Natural Fibers, Yarn and Fabric	10	29	42	65	51
Synthetic Fibers, Yarn and Fabric	49	59	91	93	107
Synthetic Rubber	69	70	80	52	51
Plastic Materials	305	385	498	446	450
Fertilizers, Pesticides and Insecticides	256	298	295	267	274
Industrial Inorganic Chemicals	144	167	232	281	247
Industrial Organic Chemicals	580	689	908	998	987
Iron Ore, Steel Scrap and Ferroalloys	167	125	163	158	164
Steel Slabs, Bars, Wire Rods, Plates and Sheets	25	18	92	224	145
Steel Strip, Wire, Shapes, Pipes, Tubes and Fasteners	36	36	57	187	67
Aluminum	406	662	1,180	1,504	1,331
Copper	191	192	377	424	639
Nonmonetary Gold	3,340	14	99	78	19
Other Precious Metals	77	115	195	130	199
Other Nonferrous Metals	180	202	318	298	318
Fabricated Metal Products	97	126	165	176	155
Unmanufactured Nonmetallic Minerals	126	148	178	111	117
Manufactured Mineral Supplies	77	91	105	290	319
Blank Audio and Video Tapes and Other Media	74	94	142	131	141
Capital Goods	6,682	7,762	10,716	12,152	14,438
Electric Machinery	454	513	681	730	712
Generators, Transformers and Accessories	58	64	95	96	144
Other Electric Apparatus and Parts	396	449	587	634	567
Nonelectric Machinery	4,329	5,277	7,667	9,605	10,358
Excavating, Paving and Construction Machinery	34	40	69	127	143
Nonfarm Tractors and Parts	59	67	110	99	105
Industrial Engines, Pumps, Compressors and Generators	111	129	166	267	303
Food and Tobacco Processing Machinery	26	35	41	75	75
Machine Tools, Metalworking, Molding and Rolling Mill Machinery	166	145	216	231	240
Textile and Sewing Machinery	22	25	41	69	56
Woodworking, Glassmaking and Plastic and Rubber Molding Machinery	46	46	70	58	76
Pulp, Paper, Printing and Packaging Machinery	77	81	124	122	134
Measuring, Testing and Control Instruments	481	580	842	656	739

	1986	1987	1988	1989	1990
Materials Handling Equipment	$25	$31	$59	$72	$93
Photo and Service Industry Machinery	125	159	198	291	298
Agricultural Machinery and Equipment	24	33	47	70	81
Computers	407	504	803	1,246	1,320
Computer Peripherals, Accessories and Parts	1,005	1,225	1,743	1,859	2,245
Semiconductors	360	550	841	1,171	1,297
Telecommunications Equipment	326	456	621	978	974
Other Office and Business Machines	101	124	102	192	148
Scientific, Hospital and Medical Equipment	446	578	775	716	1,113
Transportation Equipment	1,899	1,971	2,368	1,818	3,368
Civilian Aircraft	1,163	1,100	1,306	720	2,178
Parts for Civilian Aircraft	380	456	523	608	675
Engines for Civilian Aircraft	272	311	430	374	420
Marine Engines and Parts	61	93	92	71	65
Automotive Vehicles, Parts and Engines	302	406	826	1,123	1,760
Cars	56	111	348	481	869
Trucks, Buses and Special Vehicles	19	20	46	66	127
Automotive Tires and Tubes	21	62	147	178	180
Automotive Parts and Accessories (incl. engines)	206	213	285	397	584
Consumer Goods	1,821	2,788	3,701	5,571	6,897
Manufactured Consumer Nondurables	1,087	1,630	2,010	2,417	2,972
Textile Apparel, Footwear and Household Goods	39	76	136	183	270
Nontextile Apparel, Footwear and Household Goods	40	61	77	109	98
Sporting and Camping Apparel, Footwear and Gear	32	59	60	27	43
Pharmaceutical Preparations	639	701	849	870	805
Printed Material	62	77	105	137	146
Toiletries and Cosmetics	32	49	40	66	82
Cigarettes and Other Tobacco Manufactures	131	495	614	874	1,315
Manufactured Consumer Durables	624	996	1,460	2,927	3,618
Furniture	19	23	37	54	56
Cookware, Cutlery, House and Garden Wares and Tools	41	56	39	59	53
Household and Kitchen Appliances	25	29	35	94	93
Floor Coverings	9	21	37	61	52
Pleasure Boats and Motors	16	31	56	97	177
Toys, Sporting Goods, Bicycles and Motorcycles	101	185	286	465	473
Musical Instruments and Photographic and Optical Equipment	41	60	75	104	98
Television Sets and Other Video Equipment	14	14	30	64	57
Radios, Stereo Equipment and Other Audio Equipment	8	7	16	62	65
Records, Tapes and Disks	44	70	121	220	261
Jewelry and Watches	45	67	89	153	229
Artwork and Antiques	162	310	499	1,258	1,746
Unmanufactured Consumer Goods	111	163	231	227	308
Gemstones	107	158	226	220	300
Other Exports	931	1,329	1,326	1,606	1,748

Source: Department of Commerce, Bureau of Economic Analysis

Table 4: U.S. Imports from Japan by End-Use Category, 1986-90

(in millions of dollars, Customs value)

	1986	1987	1988	1989	1990
Total Imports from Japan	$80,722	$84,592	$89,762	$93,482	$89,684
Food, Feed and Beverages	509	465	406	348	327
Fish and Fish Products	313	265	200	176	151
Industrial Supplies and Materials	7,549	7,987	8,495	8,563	8,397
Paper and Paper Products	122	155	174	183	186
Cotton Fibers, Yarn and Fabric	165	155	124	119	115
Synthetic Fibers, Yarn and Fabric	514	462	406	358	323
Plastic Materials	424	514	509	564	593
Fertilizers, Pesticides and Insecticides	20	22	27	53	65
Industrial Inorganic Chemicals	107	147	144	173	184
Industrial Organic Chemicals	560	652	720	688	629
Steel Slabs, Bars, Wire Rods, Plates and Sheets	1,433	1,524	1,584	1,674	1,457

	1986	1987	1988	1989	1990
Steel Strip, Wire, Shapes, Pipes, Tubes and Fasteners	$710	$712	$841	$685	$571
Fabricated Steel Products	500	518	590	575	563
Fabricated Nonferrous Metal Products	564	513	444	415	559
Blank Audio and Video Tapes and Other Media	833	809	752	671	723
Capital Goods	23,441	27,697	32,834	36,872	34,567
Electric Machinery	2,337	2,853	3,468	3,122	3,277
Generators, Transformers and Accessories	569	634	807	411	451
Other Electric Apparatus and Parts	1,768	2,219	2,661	2,711	2,825
Nonelectric Machinery	20,736	24,324	28,810	32,973	30,549
Drilling and Oilfield Equipment	346	137	373	251	244
Specialized Mining and Oil Processing Equipment	382	525	563	478	517
Excavating, Paving and Construction Machinery	321	414	436	433	480
Nonfarm Tractors and Parts	20	83	105	269	272
Industrial Engines, Pumps, Compressors and Generators	638	905	1,140	1,163	1,212
Food and Tobacco Processing Machinery	85	118	94	106	81
Machine Tools, Metalworking, Molding and Rolling Mill Machinery	1,532	1,505	1,742	2,056	1,674
Textile and Sewing Machinery	228	292	403	543	408
Woodworking, Glassmaking and Plastic and Rubber Molding Machinery	359	478	557	813	624
Pulp, Paper, Printing and Packaging Machinery	382	328	348	472	448
Measuring, Testing and Control Instruments	570	674	818	764	783
Materials Handling Equipment	597	587	524	650	459
Photo and Service Industry Machinery	872	923	988	1,307	1,123
Agricultural Machinery and Equipment	512	550	494	438	401
Computers	583	617	648	619	469
Computer Peripherals, Accessories and Parts	4,114	5,768	7,050	7,929	8,108
Semiconductors	1,438	1,965	3,278	3,876	3,299
Telecommunications Equipment	3,350	3,647	3,851	4,984	4,083
Other Office and Business Machines	2,385	2,446	2,511	2,539	2,368
Scientific, Hospital and Medical Equipment	818	867	984	1,163	1,446
Transportation Equipment	369	519	557	778	741
Parts for Civilian Aircraft	189	255	322	387	471
Engines for Civilian Aircraft	53	35	58	97	84
Railroad Equipment	63	134	89	72	46
Marine Engines and Parts	53	55	63	182	140
Automotive Vehicles, Parts and Engines	32,620	33,690	32,789	33,685	32,120
Cars	20,950	21,273	19,873	20,140	19,522
Trucks, Buses and Special Vehicles	5,462	4,726	3,477	2,855	1,964
Bodies and Chassis for Trucks and Buses	188	226	263	86	93
Automotive Engines and Engine Parts	1,014	1,405	2,011	3,087	2,429
Automotive Tires and Tubes	478	498	641	818	752
Other Automotive Parts and Accessories	4,528	5,562	6,525	6,700	7,360
Consumer Goods	15,794	13,940	14,252	12,954	12,919
Manufactured Consumer Nondurables	1,419	1,400	1,450	1,514	1,371
Cotton Apparel and Household Goods	227	182	112	71	53
Other Textile Apparel and Household Goods	219	174	163	123	77
Nontextile Apparel and Household Goods	47	47	43	84	96
Pharmaceutical Preparations	271	336	344	360	341
Printed Material	188	194	218	191	186
Manufactured Consumer Durables	14,195	12,400	12,642	11,370	11,459
Glassware and Chinaware	396	375	333	275	262
Cookware, Cutlery, House and Garden Wares and Tools	249	209	209	192	168
Household and Kitchen Appliances	901	737	625	418	645
Motorcycles and Parts	856	556	629	586	403
Pleasure Boats and Motors	248	322	447	213	162
Toys and Sporting Goods (incl. bicycles)	729	931	1,633	2,108	2,632
Photographic and Optical Equipment	1,021	1,079	952	772	695
Musical Instruments and Other Recreational Equipment	392	544	549	393	350
Television Sets and Other Video Equipment	5,581	3,608	2,810	3,230	3,005
Radios, Stereo Equipment and Other Audio Equipment	2,513	2,754	3,223	2,212	1,945
Jewelry and Watches	467	526	556	356	521
Artworks and Antiques	86	63	43	101	123
Unmanufactured Consumer Goods	179	139	161	70	90
Other Imports	809	814	985	1,061	1,355

Source: Department of Commerce, Bureau of Economic Analysis

NOTE

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